SEATLE CITY EMPLOYEES'
RETIREMENT SYSTEM

Statement of Investment Policy and Procedures

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I. INTRODUCTION

This document provides a framework for the investment management of the assets of the Seattle City Employees' Retirement System (the 'System' or "SCERS"). Its purpose is to assist the Board of Administration (the Board' or "Retirement Board") in effectively supervising and monitoring the investments of the System, and achieving its objective of providing adequate retirement and disability benefits to eligible municipal employees in a cost effective manner. Specifically, it will address:

- The general goals of the investment program;
- The policies and procedures for the management of the investments;
- Specific asset allocations, rebalancing procedures and investment guidelines;
- Performance objectives; and
- Responsible parties.

The Board of Administration of the Seattle City Employees' Retirement System establishes this investment policy in accordance with Revised Code of Washington (RCW) Section 35.39 for the systematic administration of the City Employees' Retirement Fund.

The System is governed by a seven-member Board of Administration and an appointed Executive Director. In the formation of this investment policy and goal statement, a primary consideration of the Board has been their awareness of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program.

II. INVESTMENT OBJECTIVES

A. Overall Performance Goals

The System's general investment goals are broad in nature. The following goals, consistent with the above described purpose, are adopted:

- The overall goal of the System's investment assets is to provide adequate retirement and disability benefits to eligible employees in a cost effective manner. This will be accomplished through a carefully planned and executed investment program.

- A secondary objective is to achieve a long-term total annual rate of return, including dividends, interest, and capital appreciation which exceeds the assumed actuarial rate of return, currently 7.75% per year, and a total annual return net of all investment management fees and expenses, which meets or exceeds a weighted average of the asset class benchmarks specified below, where the weights correspond to the Fund's strategic policy allocation.

- The System's investment program shall at all times comply with existing and future applicable city, state, and federal regulations.

- All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.

- The System has a long-term investment horizon, and utilizes an asset allocation which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic
long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

- Investment actions are expected to comply with "prudent person" standards as described in RCW 35.39.060:

"…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

B. Performance Goals By Asset Class

The performance objective of the portfolio's allocation to each asset class in which the Retirement Fund is invested shall be to achieve a total return net of fees and expenses which equals or exceeds the market indexes listed below over a full market cycle as defined by the System's consultant.

Asset Class	**Benchmark**
1. *US Equities:*	Russell 3000 Index
2. *Non-US Equities:*	Morgan Stanley Capital International (MSCI) EAFE Index
3. *US Fixed Income:*	Barclays US Universal Index
4. *Real Estate:*	Russell NCREIF Index
5. Real Return:	CPI + 3.0%
6.*Private Equity:*	Russell 3000 Index + 3.0%
7. Covered Calls	BXM Covered Calls Index*

***Also known as the CBOE S&P 500 BuyWrite Index**

III. DUTIES AND RESPONSIBILITIES

A. Duties of the Board or its Designate(s)

The Retirement Board has the responsibility for administration of the Fund for the benefit of plan participants, although it is not the intent of the Board of Retirement to become involved in the day-today investment decisions. The Board or its designee(s) will adhere to the following procedures in the management of the Board's assets:

- The Board develops and approves guidelines for the execution of the Board's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the implementation and administration of these decisions.

- The Board will ensure a formal review of the Fund's investment structure; asset allocation and financial performance reviews will be conducted bi-annually or more frequently as the need arises. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions or the Fund's financial condition.

- The Board shall review investments quarterly or as needed to ensure that policy guidelines continue to be met The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian, investment managers, etc.

- The Board may retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews and investment research.

- The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on:

    1. Manager compliance to the Policy guidelines.

2. Material changes in the managers' organizations, such as investment philosophy, key personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the Board advised of any material changes in key personnel, investment strategy, or other pertinent information potentially affecting performance.

3. Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment contract / guidelines.

- The Board shall expect Staff to administer the Fund's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs and other administrative costs chargeable to the Fund.

- The Board shall be responsible for selecting qualified investment managers, consultants and custodian.

- Voting of proxies in stocks held by the System will he done according to Board policy.

B. Duties of the Investment Advisory Committee

RCW 35.39.080 requires that any city operating an employees' pension system appoint an Investment Advisory Committee (the "Advisory Committee") consisting of at least three members who are considered experienced and qualified in the field of investments. No member of the Investment Advisory Committee is liable for the negligence, default, or failure of any other person or other member of the Committee to perform the duties of his or her office, and no member of the Committee may be considered or held to be an insurer of the funds or assets of the System nor shall any member be liable for actions performed with the exercise of reasonable diligence within the scope of his or her duly authorized activities as a member of the Committee. RCW 35.39.110.

Duties of the Advisory Committee shall be as follows:

- Make recommendations as to general investment policies, practices, and procedures to the Retirement Board including, but not limited to, asset mix, portfolio diversification, average maturity, portfolio risk level and rate of return.

- Review the investment performance of the Retirement System.

- Prepare a written report of its activities during each fiscal year. Each report shall be submitted not more than thirty days after the end of each fiscal year to the Retirement Board.

- Review the Statement of Investment Policy and Procedures as adopted by the Retirement Board and make recommendations as to the content thereof.

- Render advice to the Retirement Board relative to the desirability of and the procedure to retain investment advisors, performance measurement services, and bank custody of securities owned.

- Select one Committee member to serve as Chair at all meetings scheduled by the Advisory Committee.

C. Duties of the Staff

The Board's Investment Staff provides analysis and recommendations to the Board on a wide variety of investments and investment related matters; oversees and directs the implementation of Board policies, and manages the Fund on a day to day basis. Further, Staff shall:

- Invest the Fund's cash without requiring the Board's permission but only as set forth in the Board's Investment Guidelines.

- Monitor investment managers for adherence to appropriate policies and guidelines.

- Evaluate and manage the relationships with brokers, managers, consultants, and custodian to the Fund to ensure that they are providing all the necessary assistance to Board and to Staff.

- Conduct the manager search process, as approved by the Board, with assistance from consultants as needed.
- Manage portfolio restructuring resulting from portfolio rebalancing or manager terminations with the assistance of consultants and managers, as needed.
- Be responsible for organizing and/or participating in any special research for the Board.
- Ensure that Investment Managers conform to the terms of their contracts and that performance monitoring systems are sufficient to provide the Board with as timely, accurate and useful information as possible.
- Advise and keep the Board apprised of any other events of investment significance.

D. Duties of the Investment Managers

The Investment Managers shall:

- Contract by written agreement with the Board to invest within approved guidelines.
- Provide the Board with proof of liability and fiduciary insurance coverage at the time of execution of engagement contract and annually thereafter until the relationship is terminated.
- Be a SEC-Registered Investment Advisor under the 1940 Act or an authorized bank or trust, and be recognized as providing demonstrated expertise over a number of years in the management of institutional assets within a defined investment specialty.
- Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.
- Obtain best execution for all transactions for the benefit of the System with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the System, and, where appropriate, facilitate soft dollar credits and the recapture of commissions for the System's benefit.
- Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian and the Board's Investment Staff.
- Maintain frequent and open communication with the Board and Staff on all significant matters pertaining to the Investment program, including, but not limited to, the following:

    1. Major changes in the Investment Manager's investment outlook, investment strategy and portfolio structure;
    2. Significant changes in ownership, organizational structure, financial condition or key or senior personnel;
    3. Any changes in the Portfolio Manager, Relations hip Manager or other personnel assigned to the System;
    4. Each client that terminates its relationship whose terminated portfolio account represents at the least one percent of the Investment Manager's aggregate portfolio on the day of notice of termination with the Investment Manager, within 30 days of such termination;
    5. Each client that terminates its relationship when the cumulative terminations for a calendar month equals or exceeds one percent of the Investment Manager's aggregate portfolio as of the first business

day of the reporting month; and

6. All pertinent issues which the Investment Manager deems to be of significant interest or material importance.

- Meet with the Board and/or Staff on an as-needed basis.

E. Duties of the Master Custodian

The Master Custodian shall be responsible to the Board for the following:

- Provide complete global custody and depository services for the designated accounts.
- Manage a Short Term Investment Fund (STIF; for investment of any uninvested cash, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.
- Provide in a timely and effective manner a monthly report of the investment activities implemented by the investment managers.
- Collect all income and principal realizable and properly report it on the periodic statements.
- Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
- Report situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.
- Provide assistance to the System to complete such activities as the annual audit, transaction verification or unique issues as required by the Board.
- Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

F. Duties of the General Investment Consultant

The Investment Consultant shall be responsible for the following:

- Prepare a quarterly performance report including performance attribution on the Board's managers and total assets, including a check on guideline compliance and adherence to investment style and discipline.
- Make recommendations to the Board regarding investment policy and strategic asset allocation.
- Assist the Board in the selection of qualified investment managers, and assist in the review of existing managers, including monitoring changes in personnel, ownership and the investment process.
- Assist the Board in the selection of a qualified custodian if necessary.
- Provide topical research and education on investment subjects as requested by the Board or Investment Staff.

IV. INVESTMENT POLICIES AND PROCEDURES

A. Asset Allocation — Asset/Liability

The Board adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities, benefit payments and required contributions;
- Historical and expected long-term capital market risk and return behavior;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The current and projected funding status of the System.

The asset allocation will be determined through appropriate studies undertaken by consultants retained by the Board. The allocation study will include all asset classes deemed prudent and appropriate by the Board. The Board, with the aid of the consultant, will determine the assumptions and criteria to he used in the asset allocation study. The following assumptions and criteria will be so determined:

- The expected return from each asset category
- The expected standard deviation of each asset category
- The minimum and maximum percent to be invested in each asset category
- The correlation relationship between the asset categories
- The minimum acceptable return over a given time period
- The net contribution as a percent of payroll
- The expected payroll growth rate

The resulting asset allocation mixes will be approved by the Board with input from Investment Staff and the consultant and an optimum selection made. The asset allocation study will be performed no less frequently than every five years. Appropriate adjustments to the existing portfolio will then be made in the most expeditious and appropriate manner.

On a more periodic basis, the Staff, with assistance from the investment consultant, will analyze the portfolio structure of each asset class. Analysis shall include: 1) appropriateness of asset class and manager benchmarks, 2) alignment structure of individual portfolios with asset class benchmark based on manager holdings and mandate, 3) evaluation of whether the asset class is structured in such a manner that is consistent with the Boards objectives, 4) analysis of underperforming managers, and 5) overall risk profile of the asset class.

Pursuant to RCW 35.39.060 which requires the diversification of the investments of the Retirement System so as to minimize the risk of large losses, the assets of the Retirement Fund shall be diversified according to the specified target percentages:

Strategic Policy Allocation approved December 1, 2010

Asset Class	2011 Target	2012 Target	2013 Long-Term Target
US Equity	25%	25%	25%
Non-US Equity	27%	27%	27%
Covered Calls	6%	6%	6%
US Fixed Income	20%	20%	20%
Real Return	7%	5%	4%
Private Equity	4%	5%	6%
Real Estate	11%	12%	12%

Strategic Policy Allocation Rebalancing Ranges

Asset Class	2011 Target	Min	Max
US Equity	25%	23%	27%
Non-US Equity	27%	25%	29%
Covered Calls	6%	2%	10%
US Fixed Income	20%	18%	22%
Real Return	7%	1%	13%
Private Equity	4%	2%	6%
Real Estate	11%	5%	17%

B. Rebalancing Guidelines

As markets move over time, the actual asset mix of the Fund's portfolio may diverge from the target allocations established by the Board through the asset allocation process. If Fund assets are allowed to deviate too far from the target allocations, there is a risk that the portfolio will fail to meet the management objectives set by the Board. On the other hand, the Board is aware that continual rebalancing of the portfolio to the asset allocation targets may result in significant transaction costs. Cognizant of these risks, the Board will rebalance the Fund portfolio in accord with the following guidelines and procedures:

- With respect to each major asset class group, asset class and sub-asset class for which the Board has set a target allocation, the Board, in consultation with its staff and its investment consultant, will establish rebalancing range limitations. Generally, the Board will require tighter ranges for the major asset class groups (e.g., total equity and total fixed income), than for an asset class or sub-asset class.

- The Board and Staff will monitor the portfolio's asset allocation relative to target allocations and ranges on a periodic basis. If the actual allocations fall within the defined ranges, no rebalancing will be required, but staff will have the discretion to rebalance on either an opportunistic basis or to manage portfolio risk relative to policy. If actual allocations for a publicly traded asset class group, asset class or sub-asset class fall outside the predetermined range, Staff may develop a plan for rebalancing back within the target range, including the timeframe for accomplishing the rebalancing. When possible and/or appropriate, it is preferred that rebalancing occurs mid-way to target.

Given the difficulty in managing the allocations to less liquid private market asset classes, automatic rebalancing will not be required if the actual allocation for such assets falls outside the predetermined range. Rather, Staff, in consultation with its investment consultant and/or other consultants, will make a recommendation to the Board for bringing the allocation as close as practicable to the policy target within a reasonable time-frame.

Whenever an allocation to a particular asset class is above or below target, but within the target range, Staff may rebalance partially or fully back to target where there is an opportunity to do so efficiently, utilizing cash inflows, cash balances held by managers and trading opportunities which would permit liquidating or adding to positions while limiting trading costs in this regard. Staff will immediately report any such rebalancing to the

Board at its next meeting.

V. ELIGIBLE INVESTMENTS

The Board will utilize the following portfolio components to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document.

A. Public Equities

The Board expects that over the long run, total returns to equities will be higher than the returns to fixed income securities, but may be subject to substantial volatility over shorter periods. Public equity holdings may include:

1. US Equities

- Index Funds / Core Stocks — This portfolio will provide broadly diversified, core exposure through index funds to the US equity market, primarily in large capitalization companies. Index funds provide primary liquidity for asset allocation.

- Large Value Stocks — As a more defensive portion of the equity portfolio, value stocks, covering the upper range of market capitalization, are expected to outperform the broad market during periods of flat or declining trends while underperforming during rising markets. Value stocks typically exhibit higher dividend yield, lower Price/Earnings ratios, and lower Price/Book ratios.

- Large Growth Stocks — Large growth stock allocation provides exposure to stocks of large capitalization whose valuations are more directly tied to future earnings prospects. Often, growth stocks sell at higher prices relative to expected or historical earnings growth. Growth stock volatility tends to be higher than value stocks, although such stocks generally outperform during rising markets while trailing the market in flat or declining periods.

- Small Value Stocks — The principal characteristic of the small value stock component is its emphasis in stocks with market capitalization generally ranging from $200 million - 1.5 billion that are generally characterized by faster growth and higher long-term returns during periods of flat or declining trends. Value stocks typically exhibit higher dividend yield, lower Price/Earnings ratios, and lower Price/Book ratios.

- Small Growth Stocks — The principal characteristic of the small growth stock component is its emphasis in stocks with market capitalization from $200 - $1.5 billion that are generally characterized by faster growth and higher long-term returns during rising markets. Growth stock volatility tends to be higher than for value stocks.

2. Non-US Equities

- Developed Markets — This category includes broadly diversified equity markets outside the U.S. and consequently plays a significant role in diversifying the portfolio. This segment will concentrate on larger companies in established equity markets around the world utilizing a top/down approach.

- Emerging Markets — This component is made up of equity positions in companies located in emerging, rapidly growing countries around the world. Because these are countries which are typically in the early development stages of economic growth, the returns in these countries tend to be higher and more volatile on a year-to-year basis.

B. Fixed Income

The primary role of the fixed income portfolio is to provide a more stable investment return and to generate income while diversifying the System's investment assets. The fixed income holdings may be comprised of the following segments:

1. US Bonds

- Core Bonds — This segment will provide core exposure to the US fixed income market including Treasury and government agency bonds, corporate debt, mortgages and asset-backed securities. The portfolio will be composed primarily of investment grade issues with duration similar to that of an applicable core bond index.

- Index Bonds — This segment is meant to replicate the maturity and sector weightings of the US fixed income market. Performance is expected to match that of applicable debt market indices.

- Non-Core Bonds — This segment includes exposures to US dollar-denominated fixed income instruments. Performance of this segment is meant to exceed that of the core segment given its inherent increased risk exposure due to characteristics such as lower credit rating, among others.

2. Global Bonds

- Global Bonds — In order to take advantage of the mature fixed income markets outside the US, this portfolio will have the flexibility to invest in any established bond market around the world. The portfolio will provide diversification to the US interest rate cycle, and consequently to the US fixed income portfolio. Currency exposure will be actively managed by the manager(s) and the System will judge the effectiveness of its manager(s) against an appropriate global bond index, fully hedged.

Real Estate

- This portfolio is expected to provide portfolio diversification due to real estates low correlation with returns on equities and fixed income. The real estate policy is stated separately in the Real Estate Investment Objectives and Investment Policy [Appendix II].

Alternative Investments

- This portfolio is expected to provide portfolio diversification and additional return to the Fund's public markets portfolio. Examples of Alternative Investment holdings will include private equity and hedge funds (e.g., hedge fund-of-funds, convertible arbitrage, equity market neutral, equity long/short, global macro, etc.).

VI. INVESTMENT MANAGEMENT POLICY

The Board will retain external investment managers to manage portfolios using a specific style and methodology. Managers will have authority for determining investment strategy, security selection, and timing subject to the Policy and Manager Guidelines and legal restrictions or other Board direction. Performance objectives will also be developed for each manager. The performance of the portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and, if available, relative to a peer group of managers following similar investment styles.

Investment actions are expected to comply with "prudent person" standards. Each investment manager will be expected to know the rules of the Board and comply with those rules. It is each manager's responsibility to identify policies that have an adverse impact on performance and to initiate discussion with the Fund's Investment Staff toward possible improvement of the rules of the Board.

The Board will also review each investment manager's adherence to its investment policy, and any material changes in the manager's organization (e.g. personnel changes, new business developments, etc.). The investment managers retained by the Board will be responsible for informing the Board by communication with the Fund's Investment Staff of such material changes.

All bond and stock business shall be executed seeking best execution. "Best execution" means seeking to achieve the most favorable price and execution available, having in mind the System's best interest, and considering all relevant factors. These factors include price, the size of the transaction, the nature of the market for the security, current market levels and trends, the reputation, experience and financial stability of the broker involved and the quality of service rendered by the broker in other transactions. Where feasible, the stock or bonds trades shall be distributed to brokerage firms where the Investment Committee has established a commission recapture I directed brokerage program.

A. Manager Selection

The selection of investment managers shall be accomplished in accordance with all applicable Local, State and Federal laws and regulations. Each investment manager, consultant and custodian shall function under a formal contract that delineates responsibilities and appropriate performance expectations.

B. Manager Authority

The Board's investment managers shall direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; Board rules or direction; applicable Local, State and Federal statutes and regulations; and individual management investment plans and executed contracts.

C. Limitations on Concentrations of Single Managers/Firms

In order to minimize any potential risk associated with large concentrations of SCERS portfolio assets being managed by a single firm, any single manager/firm, when all mandates associated with that manager/firm are aggregated, shall represent no more than 15% of the total SCERS portfolio. If any single manager/firm exceeds this limitation, the Investment Consultant and Staff shall provide the Board its solution to reallocate funds from that manager/firm within the portfolio to reduce the concentration within a reasonable time period.

D. Investment Manager Guidelines

In accordance with the Investment Objectives stated above, the Board shall provide each of the System's investment managers with a set of investment guidelines as stated in Appendix I. These guidelines shall specify eligible investment, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. Managers do not have authority to depart from their guidelines.

Manager Performance Measurement

Active investment managers in each asset class will be expected to outperform passive benchmarks related to both their asset class and their investment style by at least their management fees, and to outperform the median manager in their investment style in the universe employed by the System's investment performance measurement consultant. Any investment manager not meeting the performance objectives will be subject to the manager watchlist criteria set forth below.

Watch Status of an Investment Manager/Portfolio

An investment manager/portfolio attains "watch" status if at least one of two events occurs: (i) the portfolio's investment performance does not meet one of the criteria found in the table below; or (ii) after the Portfolio Review is conducted, staff and/or the investment consultant recommends to the Board that an investment manager is a candidate for watch status. The Board then approves or disapproves the recommendation. If the Board approves the recommendation to place a specific investment manager on watch status, staff will issue a formal notification to the investment manager. This formal notification of watch status will include, but not be limited to, the following items:

- Meeting date when the Board approved the recommendation to place the investment manager on watch;

- Reason(s) for placing the investment manager on watch status;
- Conditions for being released from watch status (see below); and
- Maximum length of watch status.

Watch status serves two basic purposes. First, it is a major decision step the Board takes to begin transitioning from one investment manager to another investment manager. Second, it allows the investment manager on watch status time to take any corrective action (or justify its changing condition) before the Board elects to terminate its existing relationship with the investment manager.

Typically, once a manager is placed on watch status, it should be able to exhibit improvement within a time frame of nine to fifteen months, if not sooner.

Release from Watch Status

Investment managers that show indications of an improvement, as reviewed by the investment consultant and determined by the Board, in one or more of the factors described earlier may be released from watch status. Examples of improvements warranting a change in status are:

- Improved investment performance in approximately fifteen months (or less) from the time of being placed on watch status.
- Investment style characteristics return to, and remain at, levels originally agreed upon.
- Qualitative factors (such as organizational structure stabilizes, personnel adjustments, compliance requirements, etc.) are met/satisfied.

To release an investment manager from watch status, the Board must formally take action to do so. This action should be supported by documentation (produced by the investment consultant) similar in format to the Portfolio Review described above. This document would highlight original reasons for the watch status and discussion of how the investment manager has addressed these issues and warrants release from watch status.

Replacement/Termination

If an investment manager is not released from watch status within the appropriate period (given as nine-to-fifteen months from the Board's decision), then the investment consultant and/or Staff should recommend that the Board replace and/or terminate the investment manager. The Board shall approve or disapprove the recommendation.

To terminate and/or replace an investment manager, the Board must formally take action to do so. This action should be supported by documentation (produced by Staff and/or investment consultant) similar in format to the Portfolio Review described above. This document shall highlight original reasons for the watch status and discussion of continued developments during watch status that led to the termination/replacement recommendation.

Manager "Watch" Criteria

Asset Class	**Short-term (Rolling 12 mth periods)**	**Medium-term (Rolling 36 mth periods)**	**Long-term**
Active US Equity	Portfolio Return < Benchmark Return — 3.0% in any quarter	Portfolio Annlzd. Return <Benchmark Annlzd. Return — 1.5% for 2 consecutive qtrs.	VRR <0.98 for 2 consecutive quarters
Passive US Equity	Tacking Error> 0.35% in any quarter	Tracking Error >0.20% for 6 consecutive months.	Portfolio Annlzd. Return <Benchmark Annlzd Return —0.10% for 2 consecutive qtrs.
Active Non-US Equity	Portfolio Return < Benchmark Return — 4.5% in any quarter	Portfolio Annlzd. Return <Benchmark Annlzd. Return — 2.5% for 2 consecutive qtrs.	VRR <0.98 for 2 consecutive qtrs.
Passive Non-US Equity	Tacking Error> 0.35% in any quarter	Tracking Error >0.20% for 6 consecutive months.	Portfolio Annlzd. Return <Benchmark Annlzd. Return —0.10% for 6 consecutive months.
Active Fixed Income	Portfolio Return < Benchmark Return— 1.0% in any quarter	Portfolio Annlzd. Return <Benchmark Annlzd. Return —0.6% for 2 consecutive qtrs.	VRR <0.99 for 2 consecutive qtrs.

*All portfolio returns are gross of manager fees.

Two (2) consecutive quarters is defined as six (6) months in a row; does not necessarily correspond to calendar quarter-end dates

See Addendum in Statement of Investment Policy for specific benchmark information

E. Securities Lending

An agreement may be made with the System's bank custodian or other third-party custodian retained by the Board to loan securities on behalf of the Retirement System. Securities that are loaned shall be fully collateralized in cash or other acceptable securities having at least 102% of the market value of the loaned security.

F. Commingled Group Trusts

Investments may be made in commingled group trusts. When the group trust is tax exempt, to meet the requirements of IRS Ruling 8 1-100 the declaration of trust governing each such group trust shall be deemed adopted as part of Seattle City Employees' Retirement System plan.

G. Derivatives

Investment in "derivatives" is permitted, however, leveraged derivatives or purchase of derivatives on credit is not permitted. Credit risk, market risk and legal risk will be determined by the Investment Committee to be appropriate before any investment is made in a derivative product for these purposes derivatives shall be defined as securities whose return or market value is derived from another security or market index.

H. Currency Hedging

With the approval of the Investment Committee, investment managers may hedge the currency risk associated with securities they manage for the Retirement System. Hedging may be accomplished through mechanisms approved by the Executive Director, including but not limited to currency futures contracts, currency purchases, and currency options. Approval to hedge must be obtained in advance and may be given orally or in writing. Managers need not obtain approval for each individual investment as long as the investment vehicle has been approved.

I. Proxy Voting of Securities

Investment managers will be given the authority to vote proxies on behalf of the Retirement System. However, if the Executive Director determines that an investment manager's voting policy, or any part thereof, does not serve the economic interests of the Retirement System, the Executive Director shall report the situation to the Investment Committee and an alternate method of voting may be selected.

Additionally, if the Executive Director is aware or has been instructed by the Board, the Executive Director may express the Retirement System's position on a given agenda item requiring proxy voting. It is the Investment Manager's responsibility to take the expression (written or verbal) under advisement and act accordingly always in accordance with the "prudent person rule."

J. Other Fiduciary Considerations

From time to time, the Board is faced with non-typical investment related considerations. When possible, the Board may give consideration to those issues so long as they do not conflict with their fiduciary obligations, and are in the best interest of the member of the System.

Economically Targeted Investments

Investment in securities of companies which promote a socially desired goal such as rewarding nondiscrimination and promoting local industry will be given priority if the investment meets the goals of the Retirement System and if the resulting return on investment and related risk are comparable to other available investments in the same category.

Geopolitical and Social Issues

The Retirement Board maintains its fiduciary obligations to the members of the System as its top priority. This requires the Board to act prudently and in the exclusive interest of participants in the management of System assets. In light of this duty, the Retirement Board will give consideration to investments in securities of companies that meet a high ethical and social standard of conduct in their operations, which, in the long-term, are expected to result in superior investment performance. As a result, the Retirement Board expects that its portfolio managers will give consideration to the following geopolitical and social issues when investing in portfolio companies including, but not limited to, the following:

- Respect for Human Rights
- Respect for Civil Liberties
- Respect for Political Rights
- Discrimination Based on Race, Sex, Disability, Language or Social Status
- Worker Rights
- Environmental
- War, Conflicts, and Acts of Terrorism

Investments will not be selected, rejected, or divested from based solely on geopolitical and social issues. The Retirement Board will, however, give serious consideration to such issues to the extent that such issues bear on the financial advisability of the investment.

APPENDIX-1 INVESTMENT MANAGER GUIDELINES

[SAMPLE]
INVESTMENT MANAGEMENT GUIDELINES AND OBJECT IVES
FOR
MANAGER XYZ

[mandate style]

Definition of Manager Style

[MANAGER XYZ] will manage a [mandate style] oriented portfolio which will invest in [ex: U.S. traded stocks of companies] which are undervalued relative to the market in terms of assets, normalized earnings, dividend yields and other appropriate evaluation measures. It is expected these companies generally will be [ex: larger firms] with established operating records. The goal of this management style will be to outperform the market as represented by the [benchmark].

Investment Objectives

On a time-weighted total return basis, investment performance is expected to exceed the [benchmark] by 1% over a full business cycle.

Investments

Issues will be listed on the New York Stock Exchange, American Stock Exchange, Regional Exchanges or Over-the-Counter markets. ADRs and International Stocks that trade on these U.S. exchanges are also allowed at a maximum of 10% of the portfolio market value in the aggregate.

[specific style expectation — ex: The active value equity style manager shall have as its guidelines an emphasis on equities producing total return through appreciation and dividend income.]

The manager shall have a history of consistent successful [style] investing of at least five years (or can demonstrate a history of previous career performance within the last seven years). There will be a maximum of *5%* cash or cash equivalents in the portfolio excluding cash held in connection with pending purchases and sales, put and call options, margin purchases, letter stock, direct or private placements, or commodities.

Diversification

No more than *5%* of the manger's portfolio at cost, and 8% at market value, shall be invested in any one company. No more than *25%* of the portfolio at market value shall be invested in any one industry as defined by Standard & Poor's.

Capitalization

[ex: Only securities of companies with a minimum market capitalization of $600 million are permissible.]

Portfolio Characteristics

The portfolio's price to book will generally be lower than that of the [benchmark], the price to earnings will generally be lower than the [benchmark] and the dividend and/or3 yield will generally be higher than the [benchmark].

Reporting

Formal quarterly reporting will include an accounting statement showing portfolio income, holdings and transactions; a summary of market and portfolio activity including total return statistics; and a statement of the market outlook and investment strategy.

Review Meetings

Review meetings will be held at least annually with the staff. Results as reported by the consultant in relation to objectives; organizational changes during the preceding 12 months; and a review of market and investment strategy will be presented.

APPENDIX 11-REAL ESTATE GUIDELINES [FOR FUTURE ADDITION]

APPENDIX III-ALTERNATIVE ASSETS GUIDELINES [FOR FUTURE ADDITION]